

TO: State Directors
Rural Development

ATTENTION: Multi-Family Housing Chiefs and Coordinators,
AMAS Coordinators and Information
ResourceManagers

FROM: Jan E. Shadburn
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Rural Housing Service

SUBJECT: Anticipated National Implementation of the Industry
Interface Voluntary Field Test

PURPOSE/INTENDED OUTCOME:

To advise you of the current status of the Industry Interface automation initiative being pursued by the Rural Housing Service (RHS). The Industry Interface has the potential to significantly reduce the paperwork burden required to comply with the Multi-Family Housing (MFH) program. We estimate RHS and our customers will reallocate (or potentially save) at least \$6.75 million dollars in annual operating expenses.

The Industry Interface is the first step towards RHS's objective of establishing an automated link between MFH borrower data and RHS management software. The goal is to increase borrower operating efficiencies and focus the Agency's automation efforts on data analysis rather than data entry.

COMPARISON WITH PREVIOUS AN:

No previous AN has been issued on this subject.

IMPLEMENTATION RESPONSIBILITIES:

The voluntary field test (VFT) of the Industry Interface has been active since September 1995. The original structure of the system was modified during the pilot when the AT&T 3B2 platform could not be upgraded to meet our needs. We explored several options and found a good low risk solution which involves using modems to replace networked

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August 31, 1998

FILING INSTRUCTIONS:
Preceding RD Instruction 1930-C

access to 3B2's. The second phase of the VFT has been active since April 1997, and is now in 4 additional servicing offices and the original 5 sites. No major problem reports have surfaced with the second phase software. Attachment A highlights some of the key issues regarding national VFT implementation. It may be shared with borrowers or management companies.

RHS is committed to successfully implementing the Industry Interface. We will need your help to accomplish this objective. If you have any questions regarding the Industry Interface, please contact Ann Lowe of the Rural Utilities National Development Branch, at (202) 690-4532 for technical questions, or Larry Anderson of the Multi-Family Housing Portfolio Management Division at (202) 720-1611, for MFH program questions.

Attachments

MFHPM-1

MFHPM-Anderson

MFHPM-S

MFJPM-recall under ddiian.doc draft 7/25/97 final 7/31/97 by MLGathers

log #100687 MLGathers

Acquiring Automation Support for the Voluntary Field Test (VFT)

As outlined in Attachment B, the Industry Interface will reduce the burden and cost of reporting MFH tenant information. RHS will approve the use of project funds to acquire automated support to participate in the VFT. While operating costs will be reduced in the long term, there may be short term increases to accommodate the initial acquisition of automated support.

Guidelines for obtaining automated support for the Industry Interface are as follows:

- With prior RHS approval, borrowers may use project operating or reserve funds to purchase or lease hardware or software needed to participate in the VFT.
- Once borrowers have acquired automation capabilities, they may allow their management agent to use them to participate in the VFT. This cost may be prorated over several projects owned by different borrower entities with a common management agent.
- When the cost of acquiring management software or hardware is not cost effective for a project, or projects with common management, RHS may allow as a project operating expense, the cost of contracting with a service bureau to provide automation support to participate in the VFT.
- To request RHS approval, borrowers must submit a brief proposal that documents the anticipated costs and benefits of adopting the automation strategy being proposed.

Further discussion of issues:

1. Deciding to Acquire Additional Automation Capabilities.

It is important to note that the approval for the use of project funds discussed above extends only to the portion of computer software and hardware need to participate in the VFT. If additional software or hardware capacity is desired by the borrower, the guidance articulated in AN 2842 (1930-C) dated August 2, 1993, still applies. The AN stated:

“MFH borrowers are encouraged to use automated systems to manage MFH projects and to prepare and process paperwork associated with project management. Where economically feasible, computer applications can improve management efficiency and reduce errors and omissions. However, the purchase of computer hardware and software out of project funds should be carefully analyzed.

If a borrower entity's purchase of computer hardware or software to be used solely at a project can be expected to show a reduction in project O&M expenses, the purchase cost may be approved by FmHA as a line item project expense. The expense may be approved at project inception out of the project's 2 percent initial operating account or subsequent to project start-up out of annual operating revenues. The cost may be prorated over several projects owned by the same borrower entity. Any computer hardware or software purchased with project funds must remain with the project if there is any subsequent change in management or ownership of the project.

The purchase or use of computer hardware or software by a management company, versus a borrower entity with or without an identity of interest with a borrower, may not be considered an allowable line item expense on an FmHA approved project budget.”

RHS recognizes that each project has specific automation needs and each may be at different stages of automation. Some currently have fully integrated management systems while others have not computerized. Each borrower must examine their project’s situation and determine the best solution.

When borrowers request RHS approval to use project funds to purchase automation capacity, they must document their request by reviewing their current automation capacity and explaining the costs and benefits of their decision. RHS will approve the cost of participating in the VFT and additional automation when it makes financial sense.

2. Choosing to Use a Service Bureau:

If acquiring automation is not a sound decision, borrowers may consider using a service bureau to provide automation services at a fee. The fee can be a project expense and should be reasonable. RHS must approve a borrower’s determination that it is in the best interest of the project to contract with a service bureau.

A service bureau is a firm that provides computer support to transmit tenant information. Currently, service bureaus support a similar tenant information automation initiative with the Department of Housing and Urban Development (HUD). Several management companies and borrowers have indicated that they are interested in performing the functions of a service bureau.

The cost of a service bureau is essentially an “add on expense” to an operating budget, since the function is not currently performed by any project. Borrowers who find that their project budget will not support the cost of acquiring automation support or a service bureau fee, should contact their servicing office. As stated earlier, borrower participation with the VFT is not mandatory at this time.

RHS will not allow an add on fee for the cost of a service bureau if your analysis demonstrates that it is less expensive to acquire an automation capacity, unless extenuating circumstances exist.

RHS will not approve the use of an add on service bureau fee as a project expense for a contract with a firm which has an Identity of Interest (IOI) with the project borrower or management agent, without detailed documentation indicating that the IOI service bureau is clearly more cost effective than a non-IOI service bureau. While this policy does not restrict the formation of IOI firms to process tenant certifications, service bureau companies or the payment for their services from a management fee, it is intended to address concerns expressed by the USDA Office of Inspector General (OIG) that IOI firms may unnecessarily inflate project operating expenses.

3. The Project Budget Impact of Participating in the Industry Interface.

The budget impact of converting to the Industry Interface will vary project-by-project depending on the costs associated with the transition and how the current budget currently carries the costs of processing (preparing, copying and mailing) a tenant certification (TC). The management agreement should establish how the current costs are carried by the project budget.

If the costs of TC processing is currently a project expense and remains a project expense, the transition to the Industry Interface should be as follows:

CURRENT BUDGET

Management fee: \$25 per unit
Project expense for TC processing: \$5 per unit

FUTURE BUDGETS

Management fee: \$25 per unit
Project Expense for TC processing: \$4 per unit

If the costs of TC processing is currently a management fee expense and remains a management fee expense, the budget should be as follows:

CURRENT BUDGET

Management fee: \$30 per unit
Project expense for TC processing: \$0 per unit

FUTURE BUDGETS

Management fee: \$29 per unit
Project expense for TC processing: \$0 per unit

If the costs of TC processing is currently a management fee expense and the borrower wishes to change it to a project expense, the management agreement should be revised and the budget adjusted as follows:

CURRENT BUDGET

Management fee: \$30 per unit
Project expense for TC processing: \$0 per unit

FUTURE BUDGETS

Management fee: \$25 per unit
Project expense for TC processing: \$4 per unit

THE INDUSTRY INTERFACE AUTOMATION INITIATIVE

What is the Industry Interface?

The Industry Interface is an automation initiative being pursued by the Rural Housing Service (RHS) to reduce the cost of compliance and increase the effectiveness of supervisory actions in the Multi-Family Housing (MFH) Program. The MFH program provides Section 515 Rural Rental Housing and Section 514/516 Farm Labor Housing to over 450,000 tenants in 18,000 projects throughout rural America.

- During FY 1996, RHS provided over \$482 million in Rental Assistance (RA) and \$741 million in Interest Credit (IC) to support MFH programs. RA subsidizes tenant rents to 30% of their adjusted income and IC subsidizes the interest rate on MFH loans down to 1%. RHS monitors and controls the amount of RA and IC provided to each of our 450,000 tenants by using the Multiple Family Housing Tenant File System (MTFS) located on a 3B2 computer in each RHS servicing office.
- Currently, MFH borrowers verify and prepare tenant income and household data, and mail it to servicing offices, where it is then keyed into MTFS by RHS.
- The Industry Interface will enable borrowers to transmit tenant data electronically to a SUN server in Washington DC, where it is checked for viruses. The servicing office then electronically retrieves the data, reviews it for acceptability, and loads it into MTFS.

What are the Benefits?

- Since the Industry Interface will allow borrowers to submit tenant data using an automated interface with MTFS, it will save them the burden and cost of generating and mailing paper documentation.
- RHS saves the burden and cost of handling mail, sorting and copying paper documentation and re-entering tenant data by hand.
- See Attachment B for a further discussion of the benefits of the Industry Interface.

How does it Impact Agency Employees?

- It frees RHS employees from clerical tasks and allows them to focus on analytical responsibilities. RHS will be able to more extensively review occupancy patterns to uncover instances of civil rights violations, tenant fraud, unacceptable management practices, and warning signs of occupancy problems.
- Coupled with other information resource strategies the Industry Interface allows additional flexibility in addressing Rural Development reorganization issues. The Industry Interface will allow State Directors to assign staff to assure completion of all required MFH program responsibilities.

What is the Implementation Schedule?

- We anticipate implementing a nationwide voluntary field test beginning in September of this year. The schedule will consist of 4 phases and will roughly correspond to the groupings of

the Dedicated Loan Origination System (DLOS) implementation schedule recently completed.

- Attachment C contains the anticipated schedule. Phases will be staged monthly.

How does the Agency Participate?

- All servicing offices that process tenant changes on MTFS will be provided with a modem, software and written directions to install and operate the Industry Interface.
- State and Servicing Offices will receive additional material explaining implementation responsibilities approximately one month before implementation.

How do Borrowers Participate?

- Borrowers will need to acquire necessary software and hardware from private vendors to transmit tenant changes using the Industry Interface system. If the cost of acquiring software or hardware is not cost effective or feasible, borrowers may obtain automated support from service bureaus.
- Attachment D contains a discussion regarding the acquisition of automated support.
- Borrower participation during the VFT is not mandatory. We anticipate that most borrowers will find it to their advantage to participate, but others may find that it is not feasible at this time. We will evaluate participation issues throughout the VFT and will provide significant advance notice prior to any mandatory participation requirement.
- Borrowers will be provided additional VFT information approximately one month before implementation.

Access to Information.

The Agency is maintaining a Web Page on the Industry Interface to keep all parties updated on the current status. It can be accessed at:

<http://www.rurdev.usda.gov/agency/rhs/mfh/ii/ii.htm>.

THE BENEFITS OF THE INDUSTRY INTERFACE

A cost benefit analysis was performed in FY 1992 prior to obtaining USDA Departmental approval. After adjusting these figures to recognize changes in implementation assumptions, it is estimated that the Industry Interface has the potential for saving 58 RHS staff years and 128 borrower staff years annually.

- 186 staff years represents approximately \$6 million in annual cost savings or reallocation to the MFH program. We anticipate that internal MFH resources will be reallocated to provide greater specialization in addressing occupancy concerns and assuring completion of all current MFH program responsibilities.
- No estimate was made during the initial cost benefit analysis to determine the extent of postage, or paper related expenses. However, we now estimate that the cost of duplicating and mailing tenant certifications to be approximately \$1 per tenant change. Servicing offices process over 675,000 tenant changes each year, which can result in additional \$675,000 savings from the Industry Interface.
- We suggest that these savings may be conservative because borrower automation also facilitates better program compliance and increased management efficiencies. We found during a field review of the Industry Interface pilot that potential savings can be achieved through the following:
 - Reduced mailing costs and burden. For borrowers, this includes duplicating, sorting, filing, mailing to a central office, mailing to RHS, overnight mailing, faxing and in some cases hand delivery of tenant information. For RHS, it includes eliminating date stamping, sorting, filing, cursory reviews and signing. These costs double when borrower documentation is returned for corrections.
 - Allows more time to meet deadlines. Filing all changes by the tenth extends most submission deadlines by 10 days. For borrowers this provides more time to assure that their information is assembled properly, complete and accurate. Our staff indicated that errors occur most frequently when borrowers rush to submit tenant information. For RHS, more accurate information results in fewer mistakes to correct with the borrower.
 - Immediate feedback on problems. RHS entry and review of tenant data may be weeks after it was originally submitted. Industry Interface allows for next day response. Corrections can be made while borrower memories are still fresh.
 - Reduce the possibility of being charged overage for late certifications. This penalty can be overwhelming when assessed to borrowers, management agents and site managers. Extended submission deadlines and faster turn around on submission reviews reduce the possibility of overage being charged for late data.
 - Increased accuracy of submissions. Private vender automation products help the borrower improve their own accuracy and reduce errors to be found and corrected by RHS.

Linking Industry Interface software with “borrower management” software will increase the efficiency of borrower operations. RHS should be able to translate gains in efficiency into smaller rent increases.

ANTICIPATED INDUSTRY INTERFACE VFT IMPLEMENTATION SCHEDULE

<u>Phase</u>	<u>State</u>	<u>Number of Servicing Offices</u>
First	MO	7
	VA	5
	AL	4
	AZ	1
	GA	6
	MT	1
	NE	5
	NV	2
	OK	4
	OR	2
	UT	2
	WA	4
	WI	4
	WY	2
Second	AR	4
	FL/VI	5
	IA	4
	LA	4
	NC	9
Third	MS	10
	CA	2
	CO	3
	HI	1
	ID	4
	KS	1
	MN	16
	NM	2
	CT/MA/RI	3
	DE/MD	2
	IN	4
	KY	5
	MI	4
	OH	6
	ME	3
Fourth	NJ	1
	NH/VT	2
	ND	4
	SC	4
	SD	11
	WV	3
	PA	6
	AK	1
	IL	8
	PR	2
	TN	8
	NY	5
	TX	26